
Finance Committee

HB 1477

Brief Description: Making changes to the working families' tax credit.

Sponsors: Representatives Thai, Street, Doglio, Berry, Chapman, Santos, Ryu, Alvarado, Ramel, Macri, Ormsby, Leavitt, Pollet and Fey.

Brief Summary of Bill

- Allows individuals filing as "married filing separately" to qualify for the Working Families' Tax Credit.
- Permits individuals to apply for any Working Families' Tax Credit payments for which they were eligible but did not claim for up to three years.
- Requires the Department of Revenue to submit a biennial report to the legislature containing relevant data about Working Families' Tax Credit program administration.

Hearing Date: 1/31/23

Staff: Rachelle Harris (253-444-316).

Background:

Working Families' Tax Credit.

The Working Families' Tax Credit (WFTC) is a state program for low- to moderate-income families that offers a partial credit against sales and use taxes paid in the form of a refund. To be eligible for credit payments, a person must:

- have filed a federal tax return;
- meet the requirements for the federal Earned Income Tax Credit (EITC), or would meet the requirements for the EITC, but are filing with an Individual Taxpayer Identification

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Number;

- be at least 25 and under 65 years of age, or have a qualifying child; and
- have lived in Washington for more than 183 days or be the spouse of someone who does.

There is no minimum or maximum age requirement for a person with a qualifying child. An applicant does not qualify if they are married but filing separately.

The amount of the WFTC payment varies depending on the number of qualifying children in the household and the filer's income level. The minimum credit amount for all eligible persons that apply is \$50. The maximum credit amount is as follows:

- \$300 for eligible persons with no qualifying children.
- \$600 for eligible persons with one qualifying child.
- \$900 for eligible persons with two qualifying children.
- \$1,200 for eligible persons with three or more qualifying children.

Beginning in 2024 and annually thereafter, credit amounts will be adjusted for inflation based on changes in the consumer price index.

Qualifying income levels are based around the maximum adjusted gross income for the federal EITC, which changes annually. The maximum credit amount for the WFTC is reduced by varying percentages depending on income levels. The Department of Revenue (DOR) adjusts the rate of credit reductions annually to maintain the minimum credit being received at the maximum qualifying income level. The rates of credit reduction also vary based on the number of qualifying children.

To receive a credit, eligible persons must apply to the DOR. The DOR has authority to adopt rules necessary to implement and administer the program. The DOR must report to the legislature within the first 18 months of program implementation on administrative or resource issues that require legislative action.

Applications for the program open February 1, 2023.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference.

All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

JLARC Review of the WFTC.

JLARC is required to review the WFTC in 2028 and every ten years thereafter. If a review finds that the WFTC does not provide meaningful financial relief to low-income and middle-income households, then the credit expires at the end of the calendar year two years after the final JLARC report containing the finding is adopted.

Summary of Bill:

Individuals filing as "married filing separately" can qualify for the WFTC. Individuals may apply for any WFTC payments for which they were eligible but did not claim for up to three years. The DOR must submit a biennial report to the legislature containing relevant data about WFTC program administration. The first report is due December 31, 2025.

Appropriation: None.

Fiscal Note: Requested on January 20, 2023.

Effective Date: The bill takes effect on January 1, 2024.